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SUBJECT: U.S. Firms Voice Concerns about China's Stimulus Packages

REF: (A) Beijing 151; (B) Beijing 326; (C) Beijing 425; (D) Beijing 443; (E) Beijing 515; (F) Beijing 583; (G) Beijing 585; (H) Beijing 661; (I) Beijing 665

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11. (SBU) Summary: A lack of transparency and "buy local" biases could thwart U.S. companies seeking to benefit from China's considerable stimulus package funding, according to representatives of major U.S. firms. Firms report that the plan has been used to support Chinese firms and create import-substituting products. While a few U.S. high-tech companies credit the stimulus package for recent growth in sales, other companies have seen few successes or opportunities thus far. Chinese officials continue to downplay concerns about "buy China" while adopting measures that largely benefit China's "backbone" enterprises. End summary.

Import Substitution, Buy Local

12. (SBU) At an April 14 Embassy roundtable for American Chamber of Commerce (AmCham) members, representatives of U.S. firms in China expressed concerns about the possibility of being excluded from China's stimulus package funding. A Microsoft representative said China's investment in the IT sector was aimed at creating substitutes for imported foreign products. He said China's government procurement system promoted import substitution without violating trade agreements because China was not a signatory to the WTO Government Procurement Agreement (GPA). Even if the stimulus package does not specifically exclude foreign companies, there is a widespread perception among local officials that they should buy locally-produced software, the Microsoft representative said.

13. (SBU) In a separate meeting with EconOff, a representative of Caterpillar said her company was concerned about the possibility of local officials' using stimulus package funding to support local companies. She cited the example of an agreement recently signed by six state-owned enterprises (SOEs) in Guangxi Province pledging to give priority to local machinery manufacturer Liugong Machinery Company for the SOEs' construction projects. The agreement was reportedly signed at a meeting organized by officials from the Guangxi Zhuang Autonomous Region Government. The Caterpillar representative said this kind of local protectionism could spur protectionist measures in other provinces. She said the machinery industry revitalization plan support for mergers and acquisitions would not formally exclude foreign companies but expressed doubts about local governments' willingness to allow foreign companies to acquire strong local companies. She said Caterpillar's initial excitement about the stimulus package has given way to frustration at the lack of details.

Lack of Transparency in the Bidding Process

14. (SBU) Some U.S. companies raised concerns about the lack of transparency in the bidding process, pointing out that Chinese bidders are provided information about procurement opportunities much sooner than overseas bidders. A representative of Caterpillar said they typically have a window of only four days to put a bid together for rail projects, making it virtually impossible for them to organize a successful bid. Caterpillar reports that at least half of domestic contracts are going to Chinese companies that are less qualified but have greater access to information and more time to prepare bids. Companies in the 3G telecom sector have also complained about the unreasonably short time-frame for foreign entities to submit bids for projects for which domestic competitors appeared to have advance notice. According to Article 24 of China's bidding and tendering law, companies should have at least 20 days from the time the bid invitation documents are sent out until the deadline for submission of bids.

Some U.S. Companies Express Optimism

15. (SBU) A representative of United Technologies, which sells high-tech equipment for building projects, said his company's sales in China were starting to pick up after a big drop at the end of 12008. He credited the stimulus package funding for his company's improving sales. U.S. chip makers Texas Instruments, Altera and Xilinx have recently reported higher than expected sales, due in part to chip orders tied to part of China's economic stimulus plan aimed at building 3G networks across the nation. A representative of General Electric (GE) told EconOff that China's stimulus package was "a perfect match" for GE, given the company's involvement in

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many sectors that would benefit from stimulus package funding. He said GE's large size, long history in China, and joint ventures with many Chinese firms put GE in a good position to benefit, particularly for projects requiring key technology that GE controls.

Concerns about Buy American

16. (SBU) Representatives of both GE and Caterpillar expressed concerns about the negative impact of "buy American" provisions in the U.S. stimulus package. While acknowledging that the provisions were not new measures, both company representatives said the perception of U.S. protectionism could encourage local governments in China to adopt protectionist measures. Speaking publicly at the China Development Forum, a three-day forum for government officials, CEOs, and economists held in Beijing March 21-23, Caterpillar Chairman and CEO James Owens said he remained relatively optimistic about his company's prospects in China and announced plans to open three new manufacturing facilities in China. However, Owens warned against the threat of protectionism, stating that "buy American" would lead other countries to adopt similar measures and prolong the recession.

China's Stimulus Aimed at Supporting "Backbone" SOEs

17. (SBU) Chinese officials have repeatedly stated that they opposed "Buy China" policies. On April 15, Ministry of Commerce (MOFCOM) Spokesperson Yao Jian defended recent Chinese policies concerning export tax rebate and industry revitalization, asserting that all the measures are WTO-compliant. Yao pledged that China, while strengthening anti-monopoly reviews of merger and acquisition (M&A) deals, would continue to encourage foreign investors to participate in domestic industry's restructuring through M&A and support foreign companies to invest in China. At the China Development Forum, Chinese Commerce Minister Chen Deming expressed his strong opposition to the spreading trade protectionism, just one week after he raised concerns with statements trying to draw distinctions between "legitimate trade protection" and the "trade protectionism" practiced by foreign governments.

18. (SBU) While China has publicly stated its opposition to protectionism, its stimulus packages and industry revitalization plans are clearly aimed at supporting Chinese SOEs. Speaking at the China Development Forum, Minister of Industry and Information Technology (MIIT) Li Yizhong outlined the major problems facing China's industrial sector, including the lack of "key, core technology," backward production, and the lack of large, strong companies. To address these shortcomings, Li said China had adopted a number of measures to provide a boost to industries hit hard by the global financial crisis: 1) increase domestic consumption through programs such as "appliances to the countryside"; 2) provide support to 10 key industries (ref A-I describe these 10 industry revitalization plans in more detail); 3) encourage technical innovation; and 4) promote industry restructuring and upgrading. Li said China needed leading "backbone" enterprises in each industry to spur innovation and boost domestic consumption.

Comment

19. (SBU) Although China's stimulus packages and industry revitalization plans are not explicitly protectionist, foreign firms are not exactly playing on a level playing field. A number of factors - lack of transparency in the bidding process, local protectionism, and China's interest in using stimulus funding to help its own SOEs and private firms - will likely frustrate many U.S. companies that are seeking to benefit from stimulus package funding. U.S. companies that partner with Chinese firms or provide products and service that Chinese firms cannot provide are in a relatively good position to benefit.

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